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State Treasurers Offer Insight to Congress



State treasurers are actively involved in national public finance issues and they are recognized for their expertise in the field. In recent months, several treasurers have testified before Congress on topics important to their states, including municipal debt ratings, college savings programs and financial literacy.

Municipal Debt

The House Financial Services Committee convened a hearing March 12 to examine the impact of turmoil in the municipal bond market on states and cities. The committee sought to understand how uncertainty in this market might affect these local governments' ability to raise money for critical infrastructure projects.

Treasurers Bill Lockyer of California, Tate Reeves of Mississippi and Robin Wiessmann of Pennsylvania testified before the committee, offering their perspective as issuers of state debt. Other state and federal officials also participated in the discussion, along with representatives from a rating agency and bond insurers.

"A traditional role of the federal government in past financial crises has been to provide short-term price stability and liquidity to the market during extremely difficult times, until the market can find its own footing," Treasurer Reeves said.

"These are extraordinarily difficult market conditions," Reeves continued.

"No single solution exists to solve the current market turmoil. To the extent possible, Congress, the SEC and market participants all have a role in navigating our financial system through this storm. The key is to encourage investor confidence in the municipal marketplace."

Committee members and the hearing witnesses discussed the investor trepidation associated with the U.S. financial downturn and how this trend creates new challenges for municipal debt issuers.

"The crisis created by the deteriorating credit profile of the bond insurers has increased interest costs, limited access to financing, undermined confidence in the capital markets, and reduced the investor base in tax-exempt bonds," Treasurer Wiessmann said. "Securing the future of this financing tool is critical to the fiscal health of governmental units in this country."

In the hearing there was bipartisan concern about the interest rate increases that many state and local governments are experiencing as a result of downgrades – or the threat of downgrades – to the bond insurers backing auction rate securities.

The hearing had a particular emphasis on three topics: (1) the dual rating system for municipal versus corporate securities; (2) the current status of the auction rate securities market and

possible remedies; and (3) the state of the monoline insurance industry and the possibility of a bailout.

Treasurer Lockyer said, “the [rating] agencies hold municipal issuers to a higher standard than corporate issuers. The disparate treatment means states, cities, counties and other governmental entities have a harder time than corporations getting their bonds rated triple-A.”

Chairman Barney Frank and others on the committee stated several times that municipal bonds are among the safest investments in the world, citing statistics about the minimal credit risk of issues, particularly with respect to equivalently rated corporate securities.

College Savings Programs

On May 1, the House Subcommittee on Select Revenue Measures held a hearing on education tax incentives and the need to consolidate and simplify the Lifetime Learning tax credit and Hope Scholarship program.

Georgia Office of Treasury and Fiscal Services Director W. Daniel Ebersole offered testimony on behalf of NAST and the College Savings Plans Network.

He told the committee about the success of state 529 programs, which now serve more than 10.5 million account holders.

Treasurer Ebersole explained that state programs “continue to seek new and innovative ways of attracting under-served populations to participate in Section 529 programs.”

“Because states are involved in the establishment and administration of Section 529 plans, we ensure that plan outreach efforts target all segments of the population, including those not typically reached by private-sector investment firms,” said Ebersole.

The treasurer’s testimony also included three proposals CSPN has made to improve the federal tax treatment of the plans.

First, CSPN is asking Congress to treat computer technology and equipment as an allowable expense. Computers are already an eligible expense for Coverdell Education Savings Accounts, and states would like this to be the case for 529 programs.

Currently, a computer is only an allowable expense under 529 rules if the student’s college formally requires it for enrollment.

Second, Treasurer Ebersole explained CSPN’s proposal that contributions to a 529 plan should be treated as contributions that qualify for the “Saver’s tax credit.” This credit helps lower income taxpayers contribute to IRAs, 401(k) plans and other similar retirement programs.

Finally, he discussed a proposal to exclude from gross income certain contributions from an employer to an employee’s 529 account. He mentioned H.R. 5591, which would allow employers to contribute up to \$500 into an employee’s account without the contribution being treated as income to the employee.

Financial Literacy

Arizona State Treasurer Dean Martin testified before the House Financial Services Committee April 15 on the importance of financial literacy and education. “The lack of financial literacy is a problem that spans every age group and every demographic,” said Treasurer Martin in his remarks.

“Rather than regulating to the lowest common denominator of financial literacy, Congress should work to elevate the financial understanding of the public,” he added.

In his testimony, Treasurer Martin emphasized that financial education is essential to the survival of the financial services industry.

He noted that the industry is willing to step forward to help with this effort because they do not want to see their customers go bankrupt. Treasurer Martin urged public and private entities to partner with each other in developing innovative programs to educate Americans.

He described one such public-private partnership produced by the Arizona Treasury, the National Football League and Visa Inc, called Financial Football, which was distributed to every high school in the state to coincide with Super Bowl XLII. The Financial Football program has been launched in 15 other states as well (see the Winter 2008 NAST Review for information on the New England kickoff).

Treasurer Martin said the program was very well received in Arizona, noting that, "the key to any successful financial education program is capturing the imagination of the participants, and making it available to them when it is relevant to their lives."

He said that financial literacy can be integrated into existing curriculum, providing context for understanding the topic. For example, students could learn how to balance a checkbook during math class.

Several witnesses at the hearing described the many financial literacy programs and resources that have been developed in recent years. Treasurer Martin stated, "the raw materials, the curriculum already exist and it is free or nearly free from the financial world." The challenge now, he added, was getting the information to citizens and helping them make informed decisions.